

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of California-American Water
Company (U210W) for Authorization to
Increase its Revenues for Water Service by
\$55,771,300 or 18.71% in the year 2024, by
\$19,565,300 or 5.50% in the year 2025, and by
\$19,892,400 or 5.30% in the year 2026.

Application 22-07-XXX

DIRECT TESTIMONY OF SCOTT CULLEN
(FINAL APPLICATION)

Sarah E. Leeper
Nicholas A. Subias
Cathy Hongola-Baptista
California-American Water Company
555 Montgomery Street, Suite 816
San Francisco, CA 94111
(415) 863-2960
sarah.leeper@amwater.com

Lori Anne Dolqueist
Willis Hon
Nossaman LLP
50 California Street
34th Floor
San Francisco, CA 94111
(415) 398-3600
ldolqueist@nossamna.com

Attorneys for California-American Water Company

Dated: July 1, 2022

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

TABLE OF CONTENTS

	<u>Page</u>
I. BACKGROUND	1
II. PURPOSE OF TESTIMONY	2
III. INCOME TAXES	2
IV. BIPARTISAN INFRASTRUCTURE PACKAGE	4

1 **BEFORE THE PUBLIC UTILITIES COMMISSION**
2 **OF THE STATE OF CALIFORNIA**

3
4 Application of California-American Water
5 Company (U210W) for Authorization to Increase
6 its Revenues for Water Service by \$55,771,300 or
7 18.71% in the year 2024, by \$19,565,300 or
8 5.50% in the year 2025, and by \$19,892,400 or
9 5.30% in the year 2026.

Application 22-07-XXX

10 **DIRECT TESTIMONY OF SCOTT CULLEN**
11 **(FINAL APPLICATION)**

12 **I. BACKGROUND**

13 Q1. Please provide your name and business address.

14 A1. My name is Scott Cullen, and my business address is 1 Water Street, Camden, New
15 Jersey.

16 Q2. By whom are you employed and in what capacity?

17 A2. I am employed by American Water Works Services Company (“American Water”) as the
18 Director of Tax Reporting and Compliance.

19
20 Q3. What are your responsibilities?

21 A3. I am responsible for management of the tax function for American Water Works, Inc. and
22 its consolidated subsidiaries, including California-American Water Company (“California
23 American Water” or the “Company”).

24
25 Q4. Briefly describe your educational, professional, and business background and experience.

26 A4. I graduated from Kean University, Union, New Jersey in 2000 with a Bachelor of Science
27 Degree in Accounting. I have a Master of Science Degree in Accounting from Kean
28

1 University. I have over 10 years of experience as a tax and accounting professional
2 serving utilities.

3
4 Q5. Have you testified before any regulatory agencies?

5 A5. No.

6
7 **II. PURPOSE OF TESTIMONY**

8 Q6. What is the purpose of your testimony?

9 A6. The purpose of my testimony is to address and support the areas of income taxes and rate
10 base.

11
12 **III. INCOME TAXES**

13 Q7. What areas related to income taxes will you address?

14 A7. I will address the following areas: (1) calculation of the state and federal income taxes
15 calculated in Chapter 6 for the Monterey Wastewater areas and for each division's
16 Results of Operations ("RO") Report of the Company's filing; (2) Repairs Deduction
17 included in tax depreciation; and (3) Deferred Income Taxes reflected in rate base. Mr.
18 Pourtaherian also touches on the calculation of the deferred taxes in rate base in his
19 testimony.

20
21 Q8. How did the Company calculate state and federal income tax expense for each district as
22 shown in Chapter 6?

23 A8. California American Water calculated state and federal income taxes using currently
24 enacted statutory rates of 21% for federal and 8.84% for state. The Company included its
25 calculations in Tables 6.1 and 6.2 of Chapter 6 of each RO Report. California American
26 Water calculated taxable income by subtracting the applicable tax deduction from
27 operating revenues. In addition, a deduction for the amortization of the Deferred
28

Investment Tax Credit and the Amortization of the Excess Deferred Taxes related to plant were included in the calculation of income taxes.

Q9. Has the Company continued to deduct, for federal income tax purposes, repairs and replacements related to certain utility plant assets?

A9. Yes, it has. In the current general rate case (“GRC”) filing, the Company included in tax depreciation a deduction related to tax repair deductions applicable to certain replacement property. California American Water incorporated the impact of the repairs and replacement deduction in the deferred income tax liability that is reflected in rate base.

Q10. How did California American Water calculate deferred taxes for rate base in the test years?

A10. The Company used Power Tax to calculate its projected deferred federal and state income taxes for rate base for the test year. Power Tax is a tax depreciation and deferred tax system designed specifically for an asset-intensive company such as California American Water. Power Tax automates all asset-related tax functionality, including book-to-tax reconciliation, tax depreciation, and asset-related deferred taxes. From the RO Model, projected plant additions, retirements, accrued book depreciation (life and cost of removal components), projected cost of removal spend, and the activity for Customer Advances and Contributions were pulled and loaded into Power Tax to calculate the projected year-end balances for both deferred federal and state income taxes. The calculation of the deferred federal and state income taxes is a result of the timing differences between tax and book deductions. A proration factor of 46.16% was used to calculate the average deferred federal and state income taxes for the test year. Please see Section VIII of the Direct Testimony of Bahman Pourtaherian for additional discussion.

1 **IV. BIPARTISAN INFRASTRUCTURE PACKAGE**

2 Q11. Please describe the effect of the Infrastructure Package on California American Water's
3 financial accounting.

4 A11. On November 15, 2021, the Bipartisan Infrastructure Package was signed into law and
5 was designed to provide significant investment in the nation's infrastructure. The bill
6 included a provision for special rules for regulated water and sewage disposal utilities as
7 it relates to the tax treatment of contributions in aid of construction ("CIAC"). The bill
8 reinstates the pre-TCJA tax treatment of CIAC, which allows regulated water and sewage
9 disposal utilities to generally exclude the receipt of CIAC from taxable income. This
10 provision is effective for contributions made after December 31, 2020. The Company
11 has performed a reclass of 2021 CIAC and Advances from taxable to nontaxable and is
12 currently reviewing the applicability to service companies.

13
14 Q12. Does this complete your testimony?

15 A12. Yes, it does at this time.
16
17
18
19
20
21
22
23
24
25
26
27
28